



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

December 4, 2003

H.J. Res. 63 **Compact of Free Association Amendments Act of 2003**

As cleared by the Congress on November 20, 2003

SUMMARY

H.J. Res. 63 would amend the Compact of Free Association and subsidiary agreements between the United States and the Republic of the Marshall Islands (RMI) and the Federated States of Micronesia (FSM). The compacts with RMI and FSM, together with the subsidiary agreements, govern the political, economic, and military relationships between the United States and these two freely associated states. Although the compact does not expire, certain provisions that authorized federal funding for RMI and FSM expired in 2001. The compact provides that expired provisions be extended until 2003 if negotiations to renew the compact had not concluded by 2001.

H.J. Res. 63 would provide financial assistance for RMI and FSM for the next 20 years. The legislation would make several changes to the compact to increase monitoring of financial assistance, create a joint oversight committee, and establish trust funds to provide funds to RMI and FSM beyond 2023. H.J. Res. 63 also would provide \$300 million over the 2004-2013 period for costs related to the migration of RMI and FSM nationals to other jurisdictions.

Consistent with the baseline construction rules in the Balanced Budget and Emergency Deficit Control Act, CBO's baseline assumes that direct spending for grants to RMI and FSM will continue over the 2004-2013 period—beyond the scheduled expiration date—at an average annual cost of \$157 million a year. We estimate that enacting this legislation would increase direct spending by \$376 million above the amounts assumed in our baseline projections over the 2004-2013 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated impact of H.J. Res. 63 on direct spending is shown in the following table. The costs of this legislation fall within budget function 800 (general government).

By Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
DIRECT SPENDING										
Baseline Spending for Compact of Free Association Under Current Law										
Estimated Budget Authority	156	156	156	156	156	156	158	158	158	158
Estimated Outlays	156	156	156	156	156	156	158	158	158	158
Proposed Changes:										
Estimated Budget Authority	28	31	34	36	36	39	39	42	44	47
Estimated Outlays	28	31	34	36	36	39	39	42	44	47
Spending for Compact of Free Association Under H.J. Res. 63										
Estimated Budget Authority	184	187	190	192	192	195	197	200	202	205
Estimated Outlays	184	187	190	192	192	195	197	200	202	205

BASIS OF ESTIMATE

H.J. Res. 63 would authorize and appropriate federal funds for economic assistance to RMI and FSM over the 2004-2023 period. Grant assistance would be aimed at needs for education, health, infrastructure, private-sector development, and the environment. In addition, the resolution would establish trust funds for RMI and FSM involving annual contributions for 20 years by RMI, FSM, and the federal government. Those trust funds are aimed at providing funds to RMI and FSM after federal grant assistance expires under the legislation in 2023.

CBO estimates that direct spending authorized by this legislation would total about \$1.9 billion over the 2004-2013 period. However, consistent with the Balanced Budget and Emergency Deficit Control Act, which specifies that certain expiring provisions should be assumed to continue for budget projection purposes, CBO's baseline includes budget authority and outlays for payments to RMI and FSM totaling \$1.6 billion over the 2004-2013 period. Thus, we estimate that H.J. Res. 63 would provide an increase in direct spending of about \$376 million above the baseline over the 10-year period. The following paragraphs discuss the financial assistance that would be provided by this legislation.

Republic of the Marshall Islands. Over the 2004-2013 period, H.J. Res. 63 would provide RMI with grants of \$356 million, \$99 million in trust fund contributions, \$180 million to compensate the Kwajalein landholders and RMI for the use of its territory by the U.S. military, and \$14 million for agricultural programs. In addition, the legislation would provide for \$5.3 million over the 2005-2007 period as the final contribution of the United States to the Rongelap Resettlement Trust Fund for a food importation program.

Federated States of Micronesia. Over the 2004-2013 period, H.J. Res. 63 would provide FSM with grants of \$793 million and \$195 million in trust fund contributions.

General Assistance. The legislation would provide \$300 million over the 2004-2013 period for health, education, social, public safety, and infrastructure costs associated with the migration of RMI and FSM nationals to Hawaii, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands (CNMI).

Debt Forgiveness. Section 104 would allow the President—at the request of the Governors of Guam and the CNMI—to reduce, waive, or release all or part of any amounts owed by the respective governments to the United States. This authority would expire in February 2005. Based on information from the Office of Insular Affairs, Guam, and the CNMI, CBO estimates that the amount of outstanding debt owed to the United States by Guam and the CNMI is approximately \$160 million. This amount consists of debts owed by Guam for telephone infrastructure improvements, disaster assistance, water consumption, and the construction of student housing. Based on information from the Office of Insular Affairs and the Office of Management and Budget, CBO has no expectation that this debt forgiveness authority would be exercised. If any changes were made to a federal loan using this authority, such as the \$105 million loan to the Guam Telephone Authority from the Department of Agriculture for telephone infrastructure improvements, the cost would be recorded in the year that the change was effective, pursuant to the Federal Credit Reform Act, and could exceed \$100 million. No costs for debt forgiveness are included in this cost estimate.

Other Programs and Services. H.J. Res. 63 also would continue to make available services currently provided by the U.S. Postal Service (USPS) and the Federal Deposit Insurance Corporation (FDIC). Spending by these agencies is generally not subject to the annual appropriations process. Based on information from the Office of Insular Affairs, CBO expects that mail service to RMI and FSM costs USPS approximately \$1 million annually; this cost is reimbursed by the Department of the Interior, subject to the availability of appropriations. In addition, CBO expects that costs to the FDIC for continuing to insure deposits in the Bank of the Federated States of Micronesia would be offset by fees assessed on the industry, resulting in no net cost to the federal government.

PREVIOUS CBO ESTIMATES

On September 25, 2003, CBO transmitted a cost estimate for S.J. Res. 16, the Compact Free Association Amendments Act of 2003, as ordered reported by the Senate Committee on Energy and Natural Resources on September 17, 2003. On September 15, 2003, CBO transmitted a revised cost estimate for H.J. Res. 63 as ordered reported by the House Committee on International Relations on September 4, 2003; an estimate for H.J. Res. 63 as ordered reported by the House Committee on the Judiciary on September 10, 2003; and an estimate for H.J. Res. 63 as ordered reported by the House Committee on Resources on September 4, 2003. Different versions of the legislation provide different levels of funding, and our estimates reflect those differences.

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